MAD Intelligent Systems

Date: May 6, 1986

To: John Nafeh

From: Paul Masson

Re: Corporate-Wholesale Financial Services Market Information
cc: S. Cook
J. Lamb

Purpose: This memorandum summarizes the market potential for expert systems based artificial intelligence solutions in the US corporate-wholesale financial services sector.[1]

Summary: Market Needs, Value of AI-Expert Systems, Strategic Options

- Trending Toward Need for Disseminate Expertise, Capture Risk Profiles: Corporate finance products and trading are changing at a rate of complexity that cannot be mastered by new personnel nor tracked by risk management systems. The market research confirms buyers-users want total solutions: combinations of hardware, software and services.[2]
- Expert Systems One Solution: Expert systems can meet the need for expertise and risk management by a) capturing and replicating marketing and risk decision expertise and b) accumulating traded exposures through networked computers to provide near real-time risk exposure positions.
- Two Strategic Approaches: There are two distinct strategic approaches to meeting these needs:
  - Build Total Solution(s, High Capital, Larger Personnel Footprint- A single company can build and offer the total solution. This will require proprietary hardware and embedded software, along with services supports.
  - Partner Total Solutions, Lower Capital, User Group Adjustments- A single company can create internal elements and supplier partnerships to assemble the total solution. This minimizes the capital requirements for hardware, software and complexity of customer relationship management.

Five Major Trends in Corporate Financial Services

- Large Institutions are Experiencing Losses From Unexpected Exposures: Credit, interest rate exposure, trading concentrations
- More Competitors Across Previously Distinct Regulatory Boundaries
- Corporations are Shifting from Relationship to Transaction Management
- Corporations and Traders are Reducing the Number of Key Financing Relationships
- Operations Capability Cannot Keep Pace with Changing Products, Risks and Relationships

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[1] Source: "Trends in Corporate Financial Services", Paul Masson, SRI International, summary briefing pages attached.

[2] Source: SRI innovation strategy and product development projects for HP, WECO, Unisys/Burroughs, and AT&T

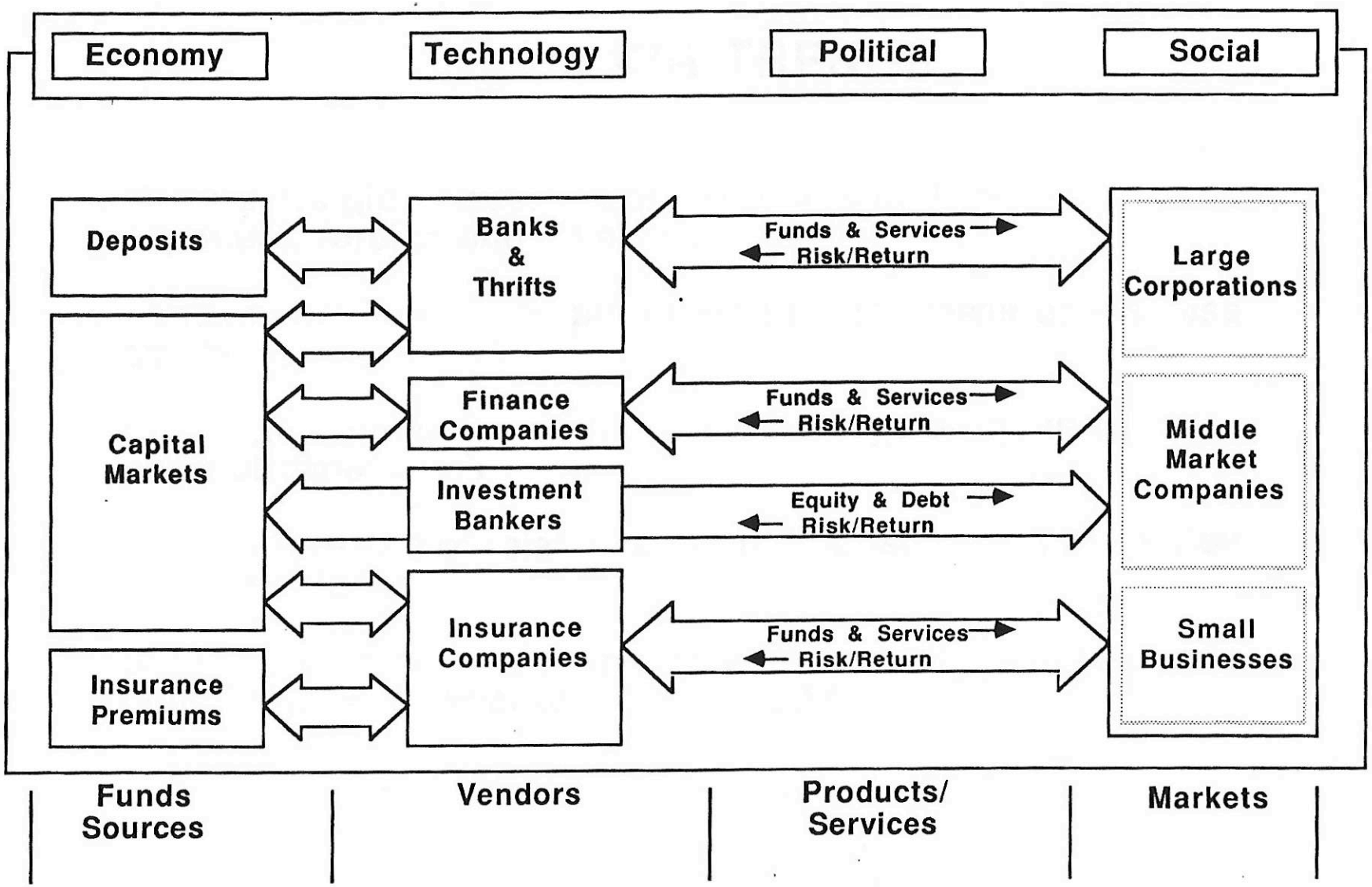
TRENDS IN CORPORATE FINANCIAL SERVICES

IMPLICATIONS FOR COMMERCIAL BANKS

Paul Masson
Paul Masson and Associates

Alex Alexander
SRI International

WHOLESALE FINANCIAL SERVICES ENVIRONMENT



FIVE MAJOR TRENDS

- Major strategic losses: credit, investment, interest rate exposure, foreign and domestic
- Fundamental shift in corporate borrowing: fewer banks, less equity, shorter terms
- Changing boundaries of competition: regulatory, geographic, product capabilities
- Changing nature of relationship: relationship vs. transaction based business
- Difficulty in implementation: organization, culture, personnel policies, lack of expertiese ... new risks